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Fuel Focus

Understanding Gasoline Markets in Canada and Economic Drivers Influencing Prices

Issue 2, Volume 8

February 8, 2013

Canada

Copies of this publication may be obtained free of charge from:
Natural Resources Canada
Petroleum Resources Branch
580 Booth Street, 17th Floor
Ottawa, Ontario K1A 0E4
Phone: (613) 992-9612
TTY Service: (613) 996-4397 (Teletype for the hearing-impaired)
Fax (613) 992-0614
Email: prb.drp@nrcan-rncan.gc.ca
Web site: http://nrcan.gc.ca/eneene/focinf-eng.php

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ISSN 1918-3321

Aussi offert en français sous le titre *Info-Carburant*

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National Overview

Average Canadian Retail Gasoline Prices Increased 6 Cents per Litre from Last Week

Canadian retail pump prices, for the week ending February 5, 2013, increased by 6 cents per litre to $1.29 per litre—a four-month high. This represents a 6 cent-per-litre increase from last year's level at the same time.

Diesel fuel prices increased by 2 cents per litre to $1.30 per litre compared to the previous week. This is an increase of 2 cents per litre from the same period last year. Furnace oil prices rose by almost 3 cents per litre from the previous week to an average of $1.23 per litre.

Retail pump prices increased, reflecting the rise in North American wholesale gasoline prices, which in turn were pushed upward by higher world crude oil prices. In addition, seasonal refinery maintenance in the U.S. has tightened supply and pushed gasoline prices up sharply.

Recent Developments

- **New Motor Vehicle Sales Up 7%**: Total new motor vehicle sales in Canada increased 7% to 1.5 million units in from January to October 2012 compared to the same period in 2011. Sales of passenger cars increased 10% to 656,021 units compared to the same period last year, while light truck sales rose 5% to 820,052 units in the same timeframe. (Source: The Daily, Statistics Canada, http://www.statcan.gc.ca/daily-quotidien/121214/dq121214e-eng.htm)
- **Hydrocarbons Found In Quebec**: The company Petrolia will develop production test programs in Rimouski, Quebec, for its Bourque-1 and 2 wells in the eastern Gaspé area of Quebec. Two tests demonstrated the presence of hydrocarbons. One test at the top of the interval recovered 53° gravity oil, and the second in the centre of the interval yielded an initial flow of 1.4 million cubic feet per day of wet gas. (Source: Oil and Gas Journal, January 30, 2013)
- **Dartmouth Refinery**: The decision concerning Imperial Oil Ltd.'s Dartmouth refinery, anticipated in the first quarter of this year, has been put off for at least a few more months according to a Calgary corporate official. Imperial has received expressions of interest from multiple potential buyers and, according to company officials, the marketing effort and evaluation of alternative options for the Dartmouth refinery and related terminals continues. (Source: Herald Business)

Figure 1: Crude Oil and Regular Gasoline Price Comparison (National Average)

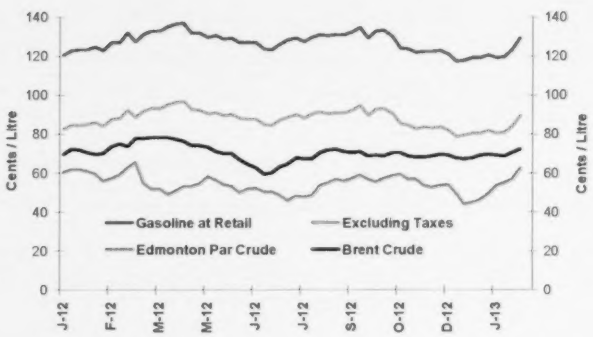
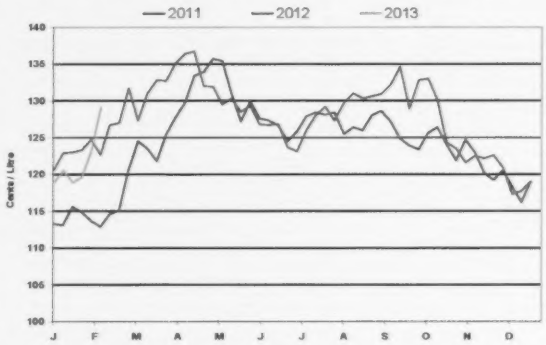


Figure 2: Weekly Regular Gasoline Prices



Changes in Fuel Prices

	Week of:	Change from:	
¢/L	2013-02-05	Previous Week	Last Year
Gasoline	129.2	+5.9	+6.5
Diesel	129.9	+1.8	+1.7
Furnace Oil	123.3	+2.6	+3.7

Source: NRCan

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Retail Gasoline Overview

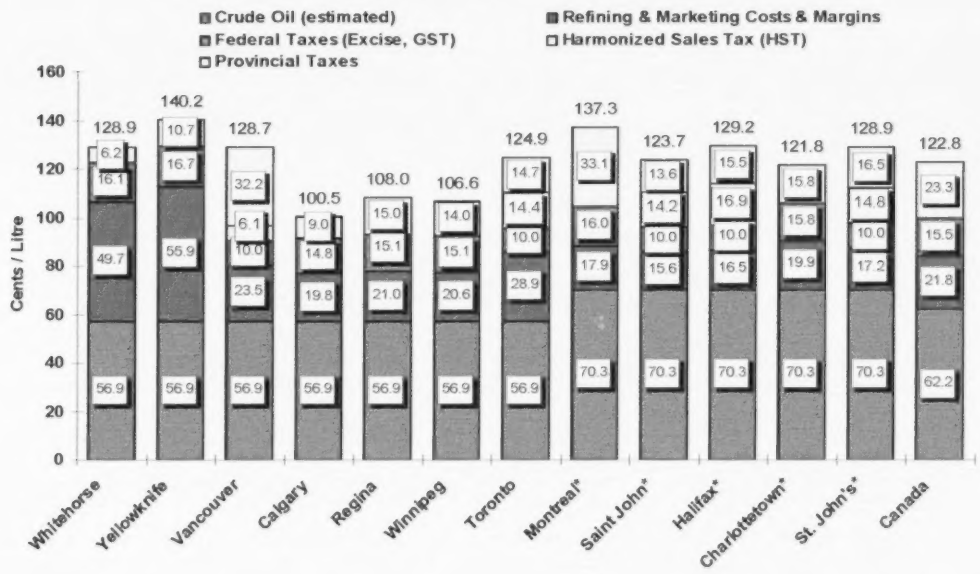
The **four-week average** regular gasoline pump price in selected cities across Canada was $1.23 per litre for the period ending February 5, 2013. This is an increase of 3 cents per litre since the last report on January 25, 2013. However, average four-week retail pump prices are 1 cent per litre lower than those recorded at the same time last year.

The **four-week average** crude oil price component of gasoline registered at 62 cents per litre, up by 4 cents per litre from two weeks ago. Compared to the same period in 2012, the crude oil price component of gasoline is 2 cents per litre lower.

Retail gasoline prices in most Western centres increased, on average, by 2 cents per litre when compared to the previous report and ranged from $1 per litre to $1.29 per litre. Prices in Eastern cities rose, on average, by less than 3 cents per litre and ranged from $1.22 per litre to $1.37 per litre.

At the national level, refining and marketing costs and margins declined by 1 cent per litre from the last report. However, this represents an increase of 1 cent per litre compared to the same period last year.

Figure 3: Regular Gasoline Pump Prices in Selected Cities
Four-Week Average (January 15 to February 5, 2013)



Source: NRCan

** Regulated Markets*

Inflation Rose 0.8% in December 2012

Statistics Canada's Consumer Price Index (CPI) report, released January 25, 2013, indicates that consumer prices rose 0.8% in the 12 months to December, matching the increase in November.

Prices for transportation increased 0.5% in the 12 months to December, after decreasing 0.2% in November. Gasoline prices rose 1.0% on a year-over-year basis in December compared to a 0.4% increase in November. Prices for the purchase of passenger vehicles fell 0.6% in the 12 months to December after decreasing 1.8% in November.

The annual review of the 2012 Consumer Price Index shows that in 2012, the annual average increase in consumer prices was 1.5%. This followed a 2.9% rise in 2011 and a 1.8% rise in 2010. The 2012 increase in the CPI was the lowest since 2009, when prices increased 0.3%. The average of the annual increases in the CPI since 1992 is 1.8%. The slower increase in the CPI in 2012 compared to 2011 was largely attributable to smaller price increases for gasoline and food. Gasoline prices increased 2.5% in 2012 following gains of 20.0% in 2011 and 9.1% in 2010.

Source: The Daily, Statistics Canada, http://www.statcan.gc.ca/daily-quotidien/130125/dq130125a-eng.htm

Wholesale Gasoline Prices

For the week **ending January 31, 2013**, wholesale gasoline prices increased in all Canadian and American centres compared to the previous week.

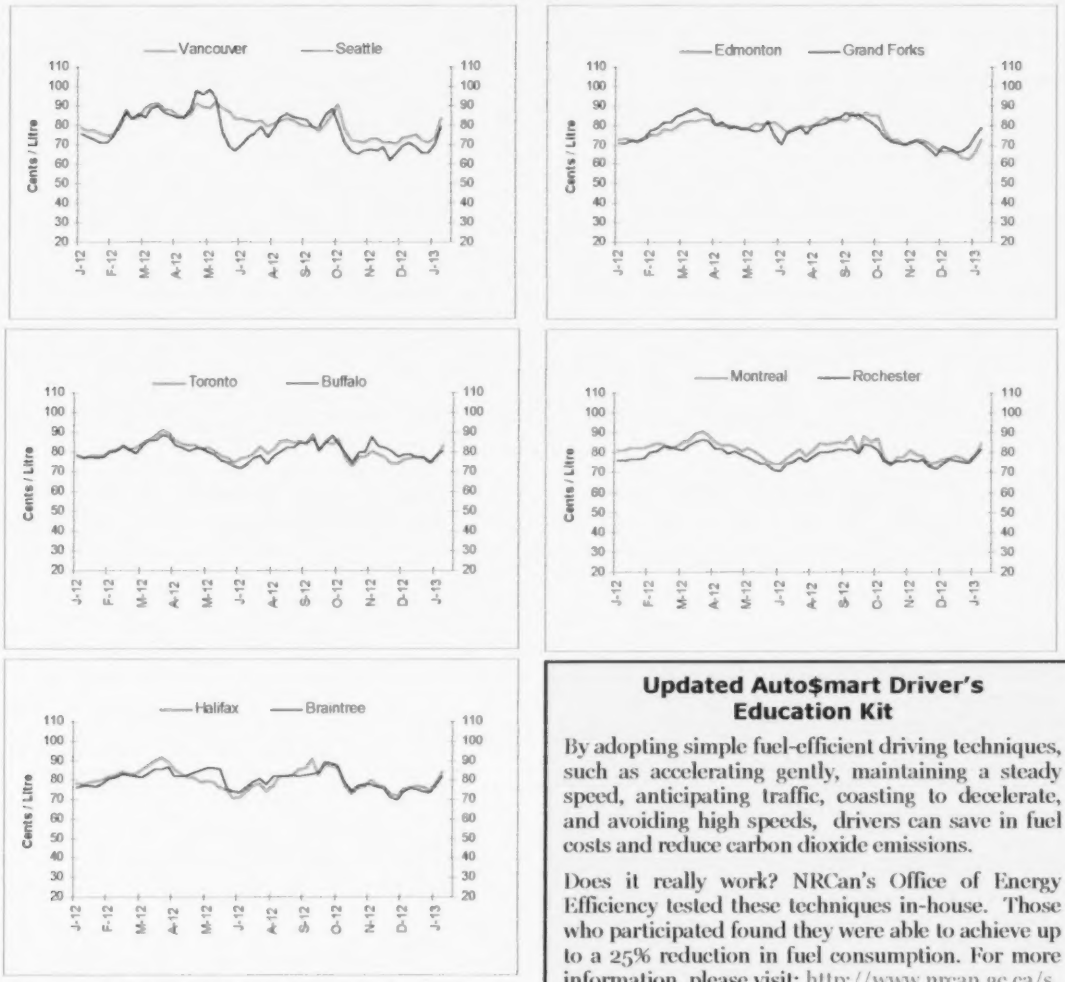
Wholesale gasoline price changes ranged from an increase of 2 to 10 cents per litre, with prices ending in the 73 to 85 cent-per-litre range in Edmonton and Montreal, respectively. The significant increase is mainly due to seasonal refinery maintenance in the U.S., in preparation for the summer driving season, which has tightened supply and pushed wholesale gasoline prices up sharply in recent weeks.

In the Eastern markets of Canada and the U.S., wholesale gasoline prices, compared to the previous week, registered increases ranging from 2 to 6 cents per litre. Prices for the period ended in the 81 to 85 cent-per-litre range.

Wholesale gasoline prices changes in Western centres ranged between increases of 4 to 10 cents per litre, with prices ending in the range of 73 to 83 cents per litre.

In the **last four weeks**, wholesale prices in most selected Canadian and American centres have increased in the range of 3 to 13 cents per litre.

Figure 4: Wholesale Gasoline Prices
Rack Terminal Prices for Selected Canadian and American Cities Ending January 31, 2013
(Can ¢/L)



Sources: NRCan, Bloomberg Oil Buyers Guide

Updated Auto$mart Driver's Education Kit

By adopting simple fuel-efficient driving techniques, such as accelerating gently, maintaining a steady speed, anticipating traffic, coasting to decelerate, and avoiding high speeds, drivers can save in fuel costs and reduce carbon dioxide emissions.

Does it really work? NRCan's Office of Energy Efficiency tested these techniques in-house. Those who participated found they were able to achieve up to a 25% reduction in fuel consumption. For more information, please visit: http://www.nrcan.gc.ca/science/story/6774

Gasoline Refining and Marketing Margins

Four-week rolling averages are used for gasoline refining and marketing margins.

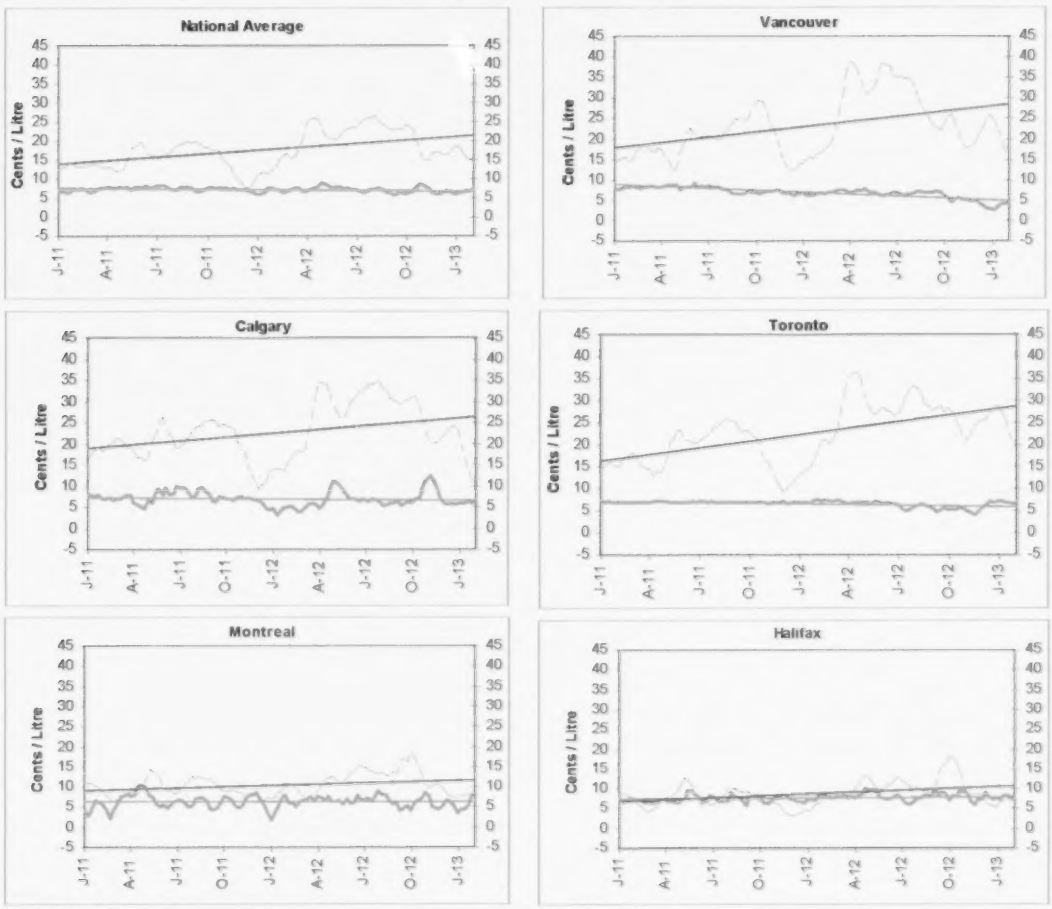
At the national level, refining margins have declined considerably since October 2012. These reductions reflect the fact that crude oil prices have increased more significantly over this period than average wholesale gasoline prices.

Generally, reductions in refining margins indicate that supply of gasoline can meet demand and that no temporary restrictions, such as refinery maintenance, or start-up delays, have been significant enough to constrain supply.

Refiners typically start building gasoline inventory in anticipation of the spring refinery maintenance season. As a result, the timing in maintenance completion and the demand can sometimes result in a temporary tightening of supply and upward pressure on prices.

Overall, marketing margins averaged 7 cents per litre. For the five centres, marketing margins ranged from 4 cents per litre to 8 cents per litre.

Figure 5: Gasoline Refining and Marketing Margins
Four-Week Rolling Average Ending February 5, 2013
------- Refining Margin ——— Marketing Margin



Source: NRCan

Crude Oil Overview

Global Crude Oil Prices on the Rise

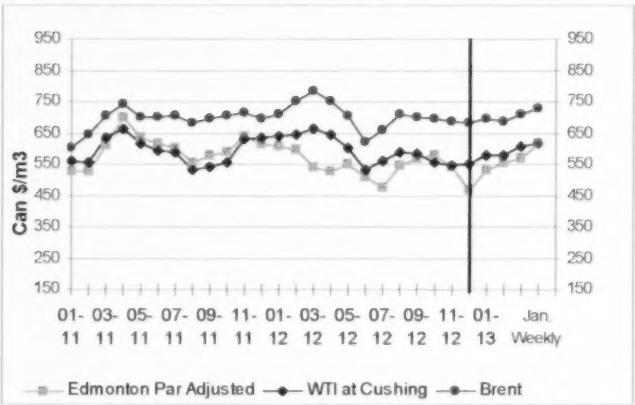
For the week ending February 1, 2013, prices for the three marker crudes averaged between $614/m^3$ and $725/m^3$ (US$97 to US$115 per barrel). This is an increase of $10 to $49/m^3$ (US$1 to US$7 per barrel) from the previous week.

Crude oil prices firmed up in the week ending February 1, 2013, with the price differential between Brent and the two North American benchmarks reaching $110/m^3$ (US$17 per barrel). Edmonton Par crude oil prices rose for the fourth straight week. On a monthly average, this represents the highest level in the last twelve months.

Increasing U.S. crude oil inventories continue to signal to the market that there is more than sufficient supply to meet North American demand. However, crude oil prices also respond to global crude oil price pressures. As always, geopolitical considerations and oil demand from countries with rapidly developing economies have an impact on global energy markets, which tends to maintain firmness in prices, if not outright upward pressure.

Continued tensions in the Middle East and North Africa tend to put a risk premium on global crude oil prices due to the potential for an increased level of conflict throughout the region which could trigger supply constraints.

Figure 6: Crude Oil Price Comparisons



Changes in Crude Oil Prices

Crude Oil Types	Week Ending: 2013-02-01		Change From:			
			Previous Week		Last Year	
	$Can/$ m^3	$US/ bbl	$Can/$ m^3	$US/ bbl	$Can/$ m^3	$US/ bbl
Edmonton Par	615.44	97.64	+48.47	+7.39	+49.01	+7.56
WTI	614.04	97.41	+9.83	+1.36	-1.04	+0.41
Brent	724.95	115.00	+18.59	+2.72	+23.09	+3.38

Source: NRCan

Why Does Canada Import Oil When It Produces More Than Enough to Meet Domestic Demand?

Canada produces more oil than it consumes. In fact, we are a large and growing net exporter of crude oil. Surplus production is exported to the United States after the demands of the domestic market are met. In spite of the availability of domestic oil, Canadian oil imports are explained by the large distances existing between oil production sites, mainly located in the West, and consumption centres for products, that are located mainly in Quebec and Ontario.

The structure of the Canadian market is dual because it is less costly for refineries in Central and Eastern Canada to import crude oil than to pay for crude oil to be transported to them from Western Canada.

The surplus Western Canadian crude oil production is exported to U.S. refineries which are relatively closer to the source of production. The East Coast Canadian refineries, which rely on imported crude oil, export their surplus production to the United States. This ensures that Canada derives the maximum benefit from the development of its resources in terms of investment, employment and economic growth. Regardless of the source of crude oil, the price paid by Canadian refineries is determined by the world oil market, supply constraints and adequate transportation.

Source: Natural Resources Canada